

**REPORT OF THE AUDIT OF THE  
GRANT COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2004**



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CRIT LUALLEN  
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The Honorable Darrell L. Link, Grant County Judge/Executive  
Honorable Randy Middleton, Grant County Sheriff  
Members of the Grant County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Grant County, Kentucky, for the year ended December 31, 2004.

We engaged Tichenor & Associates, LLP to perform the audit of this statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Grant County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**GRANT COUNTY SHERIFF**

**For The Year Ended**  
**December 31, 2004**

Tichenor & Associates, LLP has completed the Grant County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

Excess fees decreased by \$81,969 from the prior year, resulting in excess fees of \$563,139 as of December 31, 2004. Revenues decreased by \$83,591 from the prior year and there were no expenditures due to fee pooling system.

**Report Comments:**

- The Sheriff Should Submit An Annual Settlement With The Fiscal Court For Approval
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

On December 2, 2004, \$166,702 of the Grant County Sheriff's deposits of public funds were uninsured and unsecured by bank securities or bonds.



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The Honorable Darrell L. Link, Grant County Judge/Executive  
Honorable Randy Middleton, Grant County Sheriff  
Members of the Grant County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Grant County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

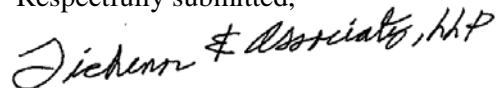
The Honorable Darrell L. Link, Grant County Judge/Executive  
Honorable Randy Middleton, Grant County Sheriff  
Members of the Grant County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Submit An Annual Settlement With The Fiscal Court For Approval
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Grant County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed -  
September 28, 2005

GRANT COUNTY  
 RANDY MIDDLETON, COUNTY SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

Federal Grants		
Highway Safety	\$	21,056
State Grants		
Overtime/Equipment Grant		4,019
State - Kentucky Law Enforcement Foundation Program Fund		58,708
State Fees For Services:		
Sheriff Security Services	\$	49,207
Finance and Administration Cabinet		17,633
Return of Fugitives		7,927
Fines and Fees		<u>5,937</u>
		80,704
Circuit Court Clerk:		
Fines and Fees Collected		1,957
Fiscal Court		72,685
County Clerk - Delinquent Taxes		1,104
Commission On Taxes Collected		292,066
Fees Collected For Services:		
Auto Inspections		13,755
Accident/Police Reports		546
Serving Papers		54,340
CCDW		6,735
Add-On Fees		22,701
Election Commission		275
Miscellaneous		<u>4,138</u>
		102,490
Interest Earned		<u>1,035</u>
Total Revenues	\$	635,824

The accompanying notes are an integral part of this financial statement.

GRANT COUNTY  
 RANDY MIDDLETON, COUNTY SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2004  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Total Expenditures	\$ 0
Net Revenues	\$ 635,824
Less: Statutory Maximum	<u>69,592</u>
Excess Fees	\$ 566,232
Less: Training Incentive Benefit	<u>3,093</u>
Excess Fees Due County for 2004	\$ 563,139
Payments to Fiscal Court - Monthly	<u>563,139</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

GRANT COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GRANT COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2004  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent for the first six months and 22.08 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 2, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$166,702 of public funds uninsured and unsecured.

GRANT COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2004  
(Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by the county official's agent in the county official's name	501,562
Uncollateralized and uninsured	<u>166,702</u>
Total	<u><u>\$ 768,264</u></u>

Note 4. Drug Forfeiture Accounts

A. Drug Fines and Forfeitures Account

During 2004, the Sheriff's office received proceeds emanated from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are to be used for law enforcement activities. As of January 1, 2004, this account had a balance of \$1,021. During 2004, funds of \$54,866 were received and \$49,873 was expended, leaving a balance of \$6,014 as of December 31, 2004.

B. K-9 Unit Account

During 2004, the Sheriff's office received proceeds emanated from the confiscation, surrender, sale of real and personal property involved in drug related convictions as a result of the use of the Grant County Sheriff's K-9 Unit. These funds are to be used for law enforcement activities. As of January 1, 2004, this account had a balance of \$831. During 2004, no funds were received and \$165 was expended, leaving a balance of \$666 as of December 31, 2004.

Note 5. Explorer Account

The Grant Sheriff's Department maintains an account named the "Explorer Account." This is the operating account for the Explorer Scout Post. This account consists of the profits resulting from vending machine sales, fund-raising events, and donations. The expenditures from this account are to promote youth law enforcement programs throughout Grant County. The beginning balance of this account was \$2,606 as of January 1, 2004. Receipts were \$8,675 and disbursements were \$9,929, leaving and ending balance of \$1,352 as of December 31, 2004.

GRANT COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2004  
(Continued)

Note 6. Federal Grants

Highway Safety Grant

The Grant County Sheriff's office was awarded a Highway Safety Grant in February 2004. During the year ended December 31, 2004, grant funds in the amount of \$21,056 were received.

Note 7. State Grants

Overtime/Equipment Grant

The Grant County Sheriff's office was awarded an Overtime/Equipment Grant on July 1, 2004 in the amount of \$11,180. During the year ended December 31, 2004, grant funds in the amount of \$4,019 were received.

Note 8. Fee Pooling

On August 1, 1999, the Grant County Sheriff's Department began a fee pooling system with the county. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Treasurer pays all operating expenses for the fee official.

Note 9. Contingencies

The Grant County Sheriff's Office is party to a legal proceeding which normally occurs in governmental operations. The legal action was instituted by the plaintiff on July 21, 2005. Since the action was filed recently, it's hard to determine liability at this time. The Grant County Sheriff's Office carries liability insurance and the coverage is up to \$3,000,000 per occurrence per year.



## COMMENTS AND RECOMMENDATIONS



GRANT COUNTY  
RANDY MIDDLETON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Submit An Annual Settlement With The Fiscal Court For Approval

As required by KRS 134.310 (5), the Sheriff shall file annually with the Fiscal Court his final settlement. We recommend the Sheriff make a final settlement with the Fiscal Court annually to be in compliance.

*County Sheriff's Response: No response.*

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On December 2, 2004, \$166,702 of the County Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*County Sheriff's Response: No response.*

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. However, the lack of segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We recommend that the following compensating controls be implemented to offset these internal control weaknesses.

The Official should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipt ledger. Any differences should be reconciled. The official should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.

The Official should compare the quarterly financial report to the receipts and disbursements ledgers for accuracy. The Official should also compare the salaries listed on the quarterly report to the individual earnings records. Any differences should be reconciled. The Official should document this review by initialing and dating the quarterly financial report.

The Official should periodically, and on a surprise basis, compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Official should document this review by initialing and dating the bank reconciliation and the balance in the checkbook.

*Sheriff's Response: Not enough help.*

GRANT COUNTY  
RANDY MIDDLETON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2004  
(Continued)

PRIOR YEAR:

Lacks Adequate Segregation of Duties

This was not corrected and is repeated in the current year.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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The Honorable Darrell L. Link, Grant County Judge/Executive  
Honorable Randy Middleton, Grant County Sheriff  
Members of the Grant County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Grant County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated September 28, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Grant County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

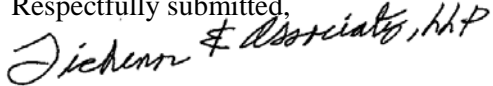
Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Grant County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Submit An Annual Settlement With The Fiscal Court For Approval
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,  


Tichenor & Associates, LLP

Audit fieldwork completed -  
September 28, 2005



